



AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL TO THE MEMBERS OF THE COUNCIL ON THE FINANCIAL STATEMENTS OF CACADU DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2005

1. Audit assignment

The financial statements as set out on pages 1 to 34 for the year ended 30 June 2005, have been audited in terms of section 188(1)(b) of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 126(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the municipal manager. My responsibility is to express an opinion on these financial statements, based on the audit.

2. Nature and scope

The audit was conducted in accordance with statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

The audit was completed in accordance with Auditor-General Directive No. 1 of 2005.

I believe that the audit provides a reasonable basis for my opinion.

3. Qualification

3.1 Levy income

As previously reported, due to the inherent uncertainties that existed, such as the completeness of registered levy payers and the integrity of the financial information submitted by the levy payers on a self-assessment basis, I have been unable to obtain adequate and relevant audit evidence to support the completeness and accuracy of the base for levy income.



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To provide financial context, the annual levy income and the rate of annual increase (growth) of levy income during the past three financial years were as follows:

Financial year	Annual levy income	Percentage growth since previous year
2002-03	R20 044 607	41,5%
2003-04	R26 023 739	29,8%
2004-05	R30 794 780	18,3%

Cognisance is taken of the restrictions imposed by paragraph 13(1) of the financial regulations issued in terms of the Regional Services Councils Amendment Act, 1991 (Act No. 75 of 1991) (Government Notice R1524 dated 28 June 1991, as amended, refers), which do not empower the collector of levies to verify a levy payer's financial information.

4. Qualified audit opinion

In my opinion, except for the effect on the financial statements of the matter referred to in paragraph 3, the financial statements fairly present, in all material respects, the financial position of Cacadu District Municipality at 30 June 2005 and the results of its operations and cash flows for the year then ended, in accordance with prescribed accounting practice.

5. Emphasis of matter

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

5.1 Delivery of planned infrastructure projects

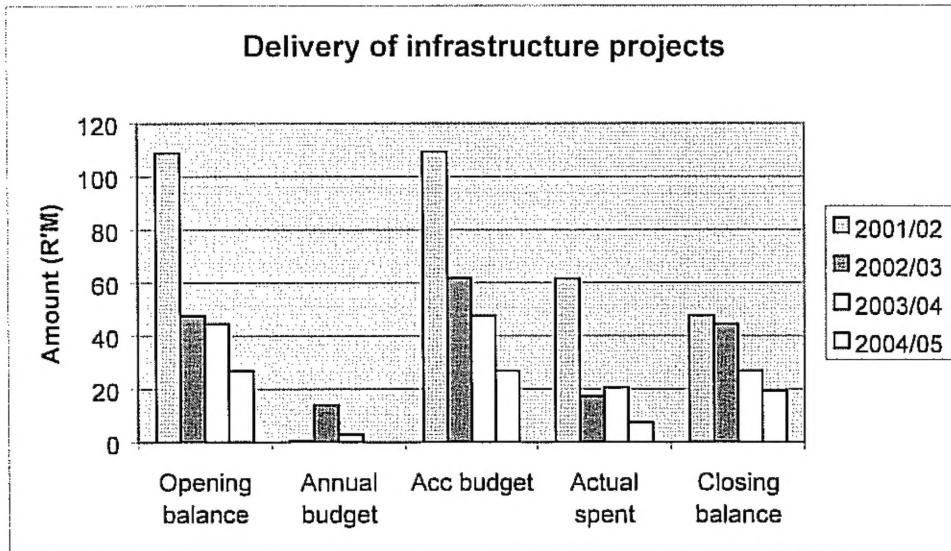
The planned and actual activities regarding infrastructure projects for the past four financial years can be summarised as follows:

Details	2001-02 (R' million)	2002-03 (R' million)	2003-04 (R' million)	2004-05 (R' million)
Balance unspent at beginning of year (a)	108,80	47,74	44,52	26,88
Amount budgeted for the year (b)	0,49	14,09	3,02	nil
Accumulated budgeted funds (a + b)	109,29	61,83	47,54	26,88
Less: actual spent during the year	61,59	17,31	20,66	7,43
Balance unspent at year-end	47,74	44,52	26,88	19,45
Percentage of budget unspent	43.68%	72%	56.54%	72.35%



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This can be graphically demonstrated as follows:



The unspent balance as at 30 June 2005 was still significant and services had still not been adequately delivered in the 2004-05 financial year. Reasons for the slow progress include the transfer of housing to Cacadu District Municipality. In addition, the funds for upgrading of infrastructure on these properties and electrification of DMA cannot be spent until the ownership status of these properties are finalised.

This aspect was also raised in the previous audit reports.

5.2 Submission of financial statements

Sections 122(1) and 126(b) of the MFMA require, *inter alia*, that every municipality must, for each financial year, prepare annual financial statements that fairly present the municipality's state of affairs and that these financial statements must be prepared by the accounting officer within two months after the end of the financial year (30 June) and submitted to the Auditor-General for auditing.

Cacadu District Municipality is classified as a medium category municipality by National Treasury and is therefore required to implement Generally Recognised Accounting Practice (GRAP) by 2007. However, the municipality started with the implemented of GRAP in the 2004-05 financial year. Although the financial statements were submitted to 31 August 2005, various errors and incorrect disclosures were found during the course of the audit, which led to a material misrepresentation of the financial position disclosed in the financial statements submitted on 31 August 2005. This was due to uncertainties regarding the interpretation of the new accounting reforms by management at the time of the compilation of financial statements.



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Adjusted financial statements were subsequently presented to me on 14 October 2005, 11 November 2005 and 9 December 2005.

The internal processes of the municipality relating to correct disclosure need to be improved to ensure that adequate financial statements are compiled within the required period.

5.3 Staff vacancies

The actual employee-related cost, compared to the budget, had been underspent in the past two financial years:

Details	2004-05 (R' million)	2003-04 (R' million)
Budgeted employee costs	38,6	21,5
Actual employee costs	32,3	16,9
Amount unspent	6,3	4,6
Percentage unspent	16,3%	21,4%

During the course of the audit, I scrutinised the number of vacant posts. The vacancies were as follows as at 11 November 2005:

Total staffing posts	:	126
Vacant posts	:	16
Vacancy rate	:	12,70%

Further analysis of the vacancies at the said date indicated that the average period that posts had not been filled was in excess of 500 days. At least seven of the vacant posts were at manager level or higher. The post of infrastructure head of department had been vacant for the longest time, i.e. since 30 September 2003. The non-timeous filling of vacant posts could have a serious impact on the delivery of services, as illustrated in paragraph 5.1.1 above.

5.4 Provisions

Included with the balance of provisions amounting to R1 643 680 as at 30 June 2005, is an amount totalling R559 884 relating to two court cases still pending. (Refer to Note 7 to the financial statements). As the outcome of the court cases are still pending, the exact extent and validity of the claim instituted against the Council is uncertain and does not meet the definition of a provision.

GAMAP 103 define a contingency as a condition arising from past events that exists at the balance sheet date giving rise to an asset or a liability whose outcome will be confirmed only on the occurrence or non-occurrence of one or more future events that are outside the control of the municipality.



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In view of above, the provisions appears to be overstated with R559 884, and considered to be more prudent if the Council disclosed the amount of R559 884 as a contingent liability in the financial statement.

5.5 Performance measures

An audit on the municipality's performance measurement according to section 46(1) of the Local Government Municipal Systems Act, 2000 (Act No. 32 of 2000) was conducted and is reported on separately.

5.6 Internal control

Deficiencies in internal control identified during the audit were brought to the attention of the municipal manager by means of a management letter dated 12 December 2005

In view of the nature and the high inherent risk for possible irregularities, the following aspects are highlighted:

- (a) Although vehicle accident, involving Council vehicles are reported to the South African Police, no formal investigation is required in terms of the Council's policies to determine the cause and responsibility for damages suffered as result of accidents.
- (b) During our physical verification of assets it was noted that no asset bar code numbers were not timeously attached to the IT assets purchased. This increases the risk for theft or irregular use of IT equipment not being detected.

It should be emphasised that the matters raised in the management letter are a result of audit test, which would not necessarily reveal all the deficiencies that might exist and their impact on the financial information.

5.7 Issues raised by the Auditor-General in the audit report

The MFMA (section 131(1)) stipulates that the municipality must address any issues raised in the audit reports and that the mayor must ensure compliance by the municipality.

Compliance with this section of the MFMA will be focused on during the next audit.



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6. Appreciation

The assistance rendered by the staff of the municipality during the audit is sincerely appreciated.

C J van Dyk
for Auditor-General

Port Elizabeth

30 June 2006